# Corporate Sustainability Reporting Directive (CSRD)

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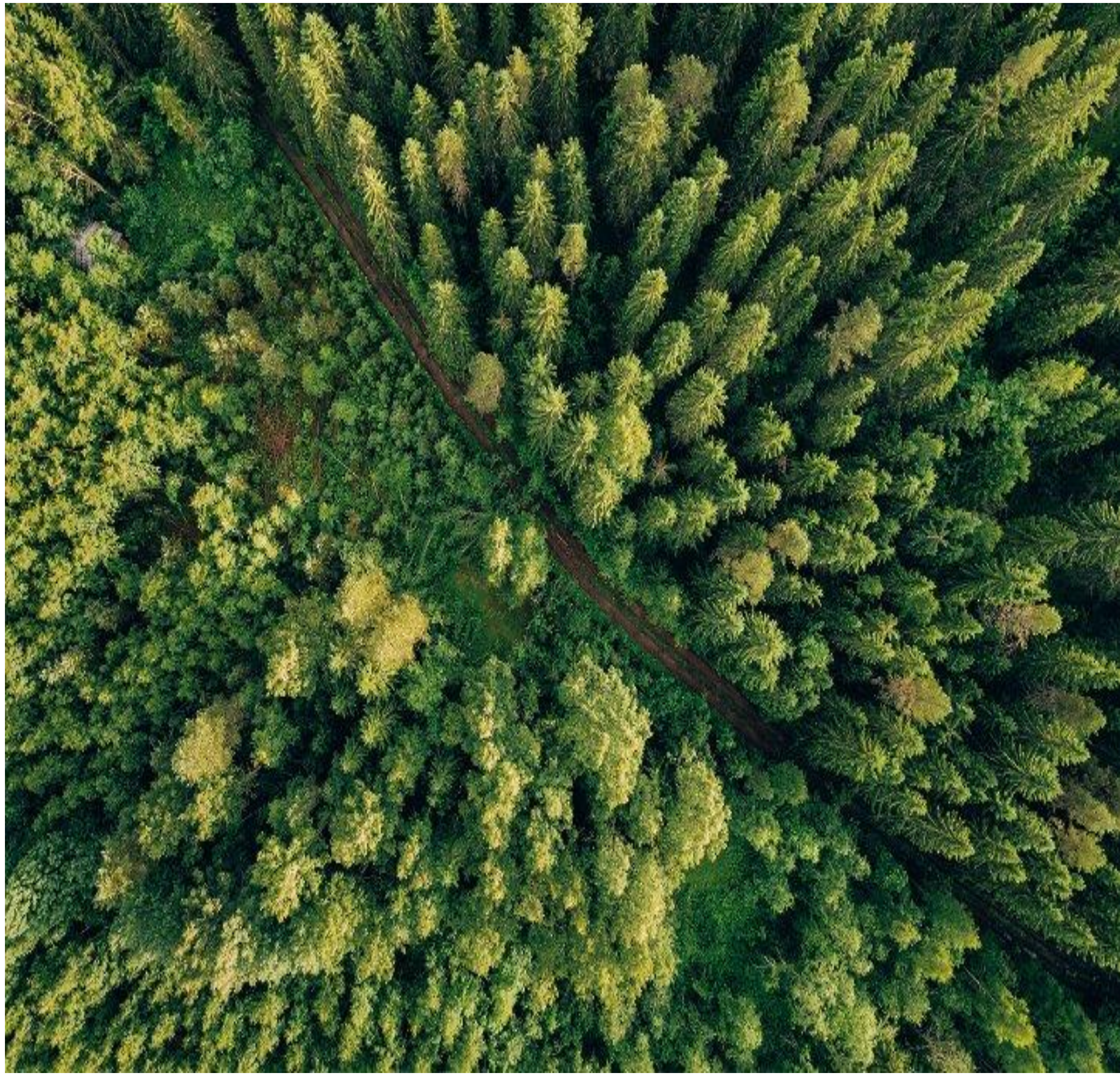
14 June 2024



# Objective

- General overview
- Local Implementation
- MFSA Approach
- Recommended Next Steps

# General Overview

# What is the CSRD?

- The goal of the CSRD is to provide clarity that will help investors, analysts, consumers and stakeholders better evaluate EU companies' sustainability performance and the related business impacts and risks.

- The CSRD notably expands the scope, sustainability disclosures and the reporting requirements of its predecessor, the Non-Financial Reporting Directive (NFRD).

- All CSRD disclosures must be publicly available - information on how their business activities affect the planet and its people, and how their sustainability goals, measures and risks impact the business's financial health.

# Why was the CSRD introduced?

- Shortcomings were identified, included a lack of consistent and comparable data that might negatively impact sustainability investments.

- The CSRD aims to improve the disclosure process to make better-informed decisions based on sustainability data.

- Longer term, the overarching goals to reduce climate risk, Europe's 2050 climate-neutrality target and European Green Deal initiatives.

# From NFRD to CSRD

| NFRD | | CSRD |
|---|---|---|
| EU large PIEs | SCOPE | EU large PIEs, EU large undertakings, EU listed SMEs and non-EU undertakings with significant activity in the EU |
| Non-binding guidelines | CONTENT | European Sustainability Reporting Standards (ESRS) |
| No specific format | FORMAT | XHTML format |
| No assurance required | ASSURANCE | Mandatory assurance |

# Scope & Timeframes to comply with the CSRD?

| Phase 1 – 2025 | Phase 2 – 2026 | Phase 3 - 2027 | Phase 4 - 2029 |
|---|---|---|---|
| Large companies already covered by the NFRD as of financial year 2024 | Reporting in 2026 for the financial year 2025 | Reporting in 2027 for financial year 2026 | Reporting in 2029 for financial year 2028 |
| Public Interest Companies (PIEs) with more than 500 employees | Large companies meeting at least two of three requirements:<br>1. > €50 million in net turnover;<br>2. > €25 million in assets;<br>3. > 250 or more employees not subject to the NFRD. | Listed Small and Medium-sized Enterprises (SMEs) | Third-country undertakings |
| This includes public interest entities (listed entities, insurance and credit institutions). | Both unlisted and listed companies are covered | CSRD doesn't place any new reporting requirements on small companies, with the exception of those with securities listed on regulated markets. | > Net turnover of €150 million in the EU for the last two consecutive FYs and fulfilment of at least one of these conditions:<br>At least one large subsidiary in the EU;<br>At least one subsidiary that is listed in an EU-regulated market; or<br>A branch in the EU which generated a net turnover of more than €40M. |

# European Sustainability Reporting Standards (ESRS)


1. **Cross-cutting:** General principles and disclosures applicable across different areas.
2. **Environmental:** Addressing topics such as greenhouse gas emissions, climate change, pollution, water and marine resources, biodiversity, ecosystems, energy efficiency, resource utilization, and circular economy practices.
3. **Social:** Qualitative data involving considerations related to the company's workforce, workers within the value chain, impacted communities, and consumers or users.
4. **Governance:** Focusing on aspects of business conduct and governance practices.


# Local Implementation

# Implementing CSRD in Malta

| Malta Financial Services Authority | Malta Gaming Authority | Malta Business Registry | Accountancy Board |
|---|---|---|---|
| ▪ Large and SME Listed Entities<br>▪ Large MFSA-Regulated Entities | ▪ Large Gaming Companies | ▪ Other Large Companies | ▪ Auditors providing limited assurance in terms of the CSRD |

# Transposition

**Audit Directive 2006/43/EC** on statutory audits of annual accounts and consolidated accounts.

**EU Audit Regulation (EU) No 537/2014** on specific requirements regarding statutory audit of public-interest entities.

**Accounting Directive 2013/34/EU** on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

**Transparency Directive 2004/109/EC** on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

- Member states are required to transpose the provisions of the CSRD by 6 July 2024.
- The first sustainability reports are in 2025 (based on reference year 2024).

- The CSRD provides 13 Member States options across 2 EU Directives - the 'Accounting Directive' and the 'Audit Directive'.

# Assurance of sustainability reporting

The CSRD amends Article 34(3) and Article 34(4) of the Accounting Directive and presents two derogations for Member States (MS) as per below:

## Default Position

**Statutory auditor of financial statements to** express an opinion as regards the compliance of sustainability reporting with CSRD requirements

## Derogation 1

**Other statutory auditor** to express an opinion as regards the compliance of sustainability reporting with CSRD requirements

## Derogation 2

**Independent assurance service providers (‘IASPs’)** to express an opinion as regards the compliance of sustainability reporting with CSRD.

# Derogation 1 - Opening market to other statutory auditors or audit firms

| | |
|---|---|
| **Member State option** | **To allow a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements to express an opinion on the sustainability report.** |
| **Pros** | • Improve the level of competition, which could be favourable for corporates both in terms of pricing/costs as well as choice.<br>• Corporates might be able to benefit from the enhanced knowledge and expertise of other auditors/audit firms with respect to sustainability reporting. |
| **Decision adopted** | The decision to allow other statutory auditors/audit firms, other than the statutory auditor of the financial statements, to carry out the assurance of sustainability reporting would increase competition which could be favourable for corporates to also achieve better pricing. |

# Derogation 2 –Opening market to IASPs

- A service provider must fulfil two principal requirements:

## 1 Obtain Accreditation

**A service providers entering the sustainability assurance market as IASPs would first be required to achieve accreditation for sustainability reporting by the national accreditation body.**

- None of these have become (or started the process to become) accredited.
- Lack of appetite locally to enter this market.
- Only foreign IASPs would benefit from a decision to open the local sustainability assurance market to IASPs.

## 2 Comply with an Assurance Framework

**IASPs are required to comply with a framework that is at least as onerous as the one to which statutory auditors are subject, in terms of training and examination, continuing education, quality assurance systems, professional ethics, and independence, amongst other things.**

- **Foreign IASP** - 1. only allowed from 2027;
  2. Supervision of foreign IASPs

- **Timing Implications**

# MFSA Approach

# Overall MFSA Approach to Sustainable Finance

- Ensuring correct and timely implementation of EU Sustainable Finance legislation and convergence measures in consultation with the respective public and private stakeholders;
- Strengthening our participation and collaboration with European and International bodies in implementing and promoting the sustainable finance framework;
- Integrating ESG framework requirements into the authorised entities' life cycle and the MFSA's supervisory practice to ensure compliance with the applicable requirements;
- Building the Authority's supervisory capacity in relation to sustainable finance (developing expertise);
- Monitoring developments, promoting awareness, entity self-assessments followed by an increased level of scrutiny and integration into the supervisory processes;
- Probing the quality of the disclosures;
- Undertake supervisory initiatives guided by the ESMA roadmap and the supervisory briefing.

# MFSA Regulatory Expectations

Over March & April, the MFSA organised focus groups sessions with NFRD Listed Entities & non-NFRD Large Listed Entities. Below are some key feedback:

- **Workload & Resources**
- **Value-chain Data**
- **Return on Investment**
- **Cultural Adoption & Strategy-setting**
- **EU Taxonomy Concerns**
- **Need for Guidance**
- **Use of Consultants**
- **Gap between NFRD & non-NFRD entities**
- **Regulatory Expectations**

# Key Takeaway Points

**Buy-in from their Board of Directors**, to set the tone at the top

**Company-wide awareness**, since a cultural change is required across

**Training at all levels**, including at the level of the Board of Directors

Integration of sustainability matters in the companies’ **risk assessment**

**ESG data capture**, and corresponding due diligence processes

**Active engagement** with peers

# MFSA Role

- MFSA recognises that there is a steep learning curve, and therefore it will continue to:

  - **Educate the financial industry** through regular publications, training through the FSA and organised events;
  - **Guide and assist** listed entities through circulars, one-to-one meetings;
  - **Engage** with the financial industry and relevant stakeholders

- MFSA's supervisory approach will be same approach applied to financial information.

# Supervisory Expectations

- Listed large companies are expected:
  - to finalise the **sustainability reporting plan**;
  - to participate in discussions and sharing of **good practices**;
  - to be **transparen**t with the market.

# Recommended Next Steps

# Recommended Next Steps

Establish a governance structure and integrate sustainability matters within the business model

Assess the status of the Undertaking in terms of compliance, and identify gaps with peers

Formulate transitions plans

Develop, adopt, and implement new processes and procedures, to fulfil the reporting requirements

# Opportunities

- Access green financing opportunities;
- Improve alignment with industry-wide benchmarks;
- Improve stakeholders' perception and confidence;
- Mitigate ESG related risks, including greenwashing;
- Develop strong ESG strategy;
- Enhance transparency through a more structure framework;
- Enhance contribution towards a more common goal.

# Thank you

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## Get in touch

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